

Missouri Pacific Railroad/Annual Report/1970

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MISSOURI PACIFIC RAILROAD COMPANY

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St. Louis, Mo. 63101

Annual Meeting of Stockholders

The Second Tuesday in May

General Offices

Missouri Pacific Building

St. Louis, Mo. 63103

Officers

D. B. JENKS

President, St. Louis

J. H. LLOYD

Executive Vice President, St. Louis

D. L. MANION

Vice President-Operation

M. M. HENNELLY

Vice President and General Counsel, St. Louis

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Treasurer, St. Louis

C. A. ROCKWELL

Secretary, St. Louis

Missouri Pacific System / Annual Report

for the year ended December 31, 1970

Consolidated Financial and Operating Highlights

Income and Expense Items

	1970	1969
Operating Revenues.....	\$534,128,000	\$495,258,000
Operating Expenses.....	416,806,000	387,101,000
Operating Ratio (Rail Line).....	75.4%	75.5%
Income Available for Fixed Charges.....	58,670,000	58,548,000
Times Fixed Interest Earned.....	2.3	2.4
Net Income —		
In Conformity with I.C.C. Accounting Principles.....	21,580,000	21,287,000
Adjusted to Generally Accepted Accounting Principles.....	11,511,000	14,140,000
Cash Dividends per Share — Class A and B Stocks.....	5.00	5.00

See Page 16 for Information Relating to the
Class A and Class B Capital Stocks of the Company

Financial Position

Gross Capital Expenditures.....	\$ 55,740,000	\$ 60,974,000
Depreciation and Retirements Charged to Income.....	37,958,000	36,349,000
Working Capital.....	21,087,000	25,169,000
Long Term Debt, including amount due within one year.....	719,192,000	729,050,000

Freight Statistics

Average Miles of Railroad Operated.....	11,819	11,840
Revenue Ton Miles (1,000's).....	35,800,738	34,371,285
Revenue per Ton Mile (cents).....	1.33	1.28

Employees

Total Amount of Payroll.....	\$224,927,000	\$212,053,000
Average Annual Wages.....	9,630	8,908
Average Number of Employees.....	23,356	23,804

To our stockholders

In 1970, for the first time in company history, Missouri Pacific System consolidated revenues surpassed a half-billion dollars. Revenue freight ton-miles again established a record. Consolidated net income rose slightly above that of 1969 in a year which found the railroad industry generally reporting earnings at the lowest level since the 1930's.

There are several reasons for the contrast between MoPac performance and that of the railroad industry as a whole: improved efficiency directly attributable to a continuing modernization program; additional traffic produced by new and expanded industry along MoPac lines; aggressive marketing, pricing and promotion of company services which helped hold old customers while attracting new ones, and overall firmness in the economy of the 12-state region served by MoPac. An additional factor is MoPac's deep commitment to the total transportation company concept

so attractive to today's shippers with their complex distribution patterns.

Nevertheless, the past year also presented problems. Carloadings declined about two per cent, largely because of the General Motors strike and a 16 per cent drop in total automobile sales as well as lower levels of business in other industries. Compensating in part for the losses were heavy agricultural loadings. Operating costs continued to escalate as the result of steep wage increases and sharply higher costs for materials and supplies. Additional revenues resulting from higher freight rates are not even enough to meet increased labor costs.

Capital improvement spending continued during 1970 on a slightly smaller scale than in recent years with most of the money being used for the purchase of new freight cars and locomotives and for other basic physical needs. Maintenance and

upgrading of track and structures continued at a high level to insure maximum operating efficiency. Implementation of MoPac's Transportation Control System proceeded on schedule.

MoPac continued to be an industry pace-setter in development of its intermodal capabilities. Piggyback traffic registered a modest gain in the face of a substantial decline among railroads nationally. Container traffic continued to be our fastest-growing service. MoPac container services were aided by the opening of an office in Japan last September and by the development of a new marketing tool, Containerpak. MoPac's two wholly-owned trucking subsidiaries reported higher revenues for the year but their net income slid downwards along with that of the trucking industry. We continue to be optimistic that the Civil Aeronautics Board will soon authorize MoPac to operate as an air freight forwarder.

Industrial growth continued at a rapid pace in the region served by MoPac. Investment in new and expanded facilities along our lines set a record in 1970.

Turning to 1971, there are so many uncertainties that it is most difficult to predict MoPac

Industrial growth continued at a rapid pace in the region served by MoPac. Investment in new and expanded facilities along our lines set a record in 1970.

performance for the year. Among the uncertainties are: the possibility of a prolonged steel strike, further strikes by railroad unions, continued softness in the automobile industry and other key traffic areas and possible extension of recession to areas within our region currently economically strong.

It is certain that wage costs will rise substantially in 1971, whether or not there are railroad strikes. Labor settlements which either have been negotiated this year, or are in the process of being negotiated, call for increases averaging about 40 to 42 per cent over three-and-one-half years. These are the largest increases ever granted by the railroad industry. Further freight rate increases are imperative if the railroad industry is to offset such excessive wage hikes. Under the present circumstances, MoPac expects further gains in revenue in 1971 and earnings equal to or slightly higher than in 1970.

The Missouri Pacific System, even though its 1970 results are comparable to past years, is also part of a railroad industry that is deeply troubled. Obviously, a continued decline in the railroad industry must eventually reflect itself on the Missouri Pacific.

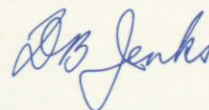
MoPac has increased its cash position during the past year and has no commercial paper or bank debts outstanding, other than equipment obligations. We intend to maintain this position.

More rate increases, while essential, will at best relieve only short-term pressure. The underlying problems weakening the industry remain. Basically the problems are overly-restrictive government regulations, antiquated work rules perpetuated by the railroad unions and a low rate of return on investment with costs rising faster proportionately than revenues.

Solutions are possible. The question is whether the solutions will be timely enough to be of aid. Many of the governmental problems could be alleviated by the legislative program now being offered to Congress by the industry. Called ASTRO, it is a comprehensive package which seeks an easing of regulatory restrictions, greater freedom in pricing of services, authority for railroads to further diversify their transportation operations, financial aid for the weaker railroads and similar measures.

If the problems inherent in the railroads' relationships with government and labor can be solved, then the problem of attaining an equitable return on investment will resolve itself. That, in turn, would mean a financially healthy railroad industry in a position to provide efficient, low-cost transportation to the public.

Returning to MoPac itself, the Company has improved on its performance of 1969 and looks forward to further improvement. MoPac has increased its cash position during the past year and has no commercial paper or bank debts outstanding, other than equipment obligations. We intend to maintain this position.



D. B. Jenks, President
February 26, 1971

Income up on record revenues

Missouri Pacific System consolidated net income rose to \$21,580,000 in 1970 from the 1969 figure of \$21,287,000. The railroad's net for the year was reduced by \$787,000 after taxes and minority interests as a result of writing off receivables of \$1,100,000 from railroads in reorganization. Operating revenues for the year totaled \$534,128,000, a gain of nearly 8 per cent from 1969 when MoPac revenues amounted to \$495,258,000. Expenses rose to \$416,806,000 in 1970 from the 1969 total of \$387,101,000, a gain of 7.7 per cent. For the seventh consecutive

year, all stockholders received a \$5 cash dividend.

Missouri Pacific's consolidated results include the accounts of the Chicago & Eastern Illinois System for the entire year of 1970. However, C&EI revenue and expense figures are not comparable with 1969 because these figures were included in last year's MoPac financial statements only from June 5, 1969, the date on which MoPac's ownership in the C&EI surpassed 50 per cent. (Prior to that date, the results of operations of the C&EI are reflected in the consolidated income statement on the equity method of accounting.) Currently, Missouri Pacific's ownership of C&EI stands at 56.8 per cent. In 1970, the C&EI System earned \$781,000 on revenues of \$32,808,000 and after operating expenses of \$26,123,000. The C&EI recorded a deficit of \$5,448,000 in 1969, including \$4,358,000 represented by non-recurring extraordinary losses.

MoPac System freight revenue rose 8.3 per cent and revenue freight ton-miles showed a gain of 4.2 per cent from 1969.

Debt reduced and cash position improved

The Missouri Pacific System's consolidated cash and temporary cash investment position improved during the year, rising from \$41,051,000 as of December 31, 1969 to \$52,774,000 on the same date in 1970. The year-end cash figure includes more than \$9,000,000 for back pay. Most of this was paid in February, 1971. Working capital declined \$4,082,000 to \$21,087,000 on December 31, 1970, from \$25,169,000 at the close of 1969.

Improvement was noted in the Company's debt position. Consolidated funded debt, including debt due within one year,

was \$719,192,000 at year's end as compared to \$729,050,000 on December 31, 1969. Equipment obligations issued during the year totaled \$17,429,000 while repayments amounted to \$24,996,000.

Capital improvement expenditures during 1970 totaled \$55,740,000, compared to \$60,974,000 during 1969. Total outlays for capital improvements for the ten-year period 1961 through 1970 amount to \$587,920,000, an investment that has resulted in an improved car and locomotive fleet, efficient new shops and a general upgrading of the entire property.

Intermodal traffic grows

Gains in piggyback and container traffic, new ventures and further improvement of facilities were bright spots during 1970 in development of MoPac's intermodal freight services.

Piggyback improves during national decline

The growth rate of piggyback traffic on the Missouri Pacific System slowed during 1970 but the Company did record a 1.3 per cent increase in loadings by handling 157,431 trailers. The railroad industry, in contrast,

reported a decline in loadings of 6.4 per cent.

A new, large piggyback facility was constructed at Addis, near Baton Rouge, La., in conjunction with a new merchandise freight terminal. A similar and

even larger piggyback facility has been installed at Memphis where construction of a new merchandise freight terminal is underway. Still another project involved total renovation of a company-owned freight house in St. Louis.

New ideas help sell containerization

Container traffic, though much smaller in volume, fared better than piggyback by posting a gain of 3.1 per cent on 4,613 loads.

Midway through 1970 MoPac began promoting a new marketing concept called Containerpak, a systematic description of the various combinations of container services available to the shipper. Containerpak is similar in purpose to the transporta-

tion industry's well-established piggyback plans.

A new office was opened in Tokyo, Japan, in September in order to bring MoPac closer to Japan's active containerization market. Substantial new business already has been developed as a result of this overseas venture. The feasibility of opening additional foreign agencies is under consideration. MoPac has main-

tained sales offices in Mexico for many years with excellent results.

In another effort to broaden MoPac's container service base, Missouri Pacific Intermodal Transport entered into an agreement with ATC Leasing Co., whereby the wholly-owned subsidiary of the Missouri Pacific Truck Lines operates as a lessor of container chassis at Houston, New Orleans, Kansas City and St. Louis.

High costs and strikes pressure truck lines

Net income of MoPac's two wholly-owned trucking subsidiaries, Missouri Pacific Truck Lines and Texas & Pacific Motor Transport, declined in 1970 despite higher gross revenues. Net income for 1970 totaled \$237,000 compared to \$624,000 in 1969. Revenues for 1970 rose \$2,388,000 from 1969 to \$31,004,000, a gain

of 8.3 per cent.

Labor problems played a major role in the decline experienced not only by our truck lines but also by the entire trucking industry. Employees represented by the Teamsters Union were granted an inflationary 42 per cent wage increase which came only after a strike. The Teamster

strike, plus either actual or threatened railroad strikes, resulted in substantial diversions of traffic during the year. Finally, there was a general downturn in activity by shippers who generally make heavy use of trucking.

MoPac trucking subsidiaries continued to upgrade their equipment with the purchase of 178 units of highway equipment at a cost of \$2,206,000. The truck lines fleet now includes nearly 3,000 vehicles and is among the most modern in the trucking industry.

Because of their railroad ownership, the truck lines continue to be handicapped by numerous unrealistic governmental restrictions. Progress continued to be made during 1970 in getting some restrictions lifted.

Airfreight decision pending

Favorable action by the Civil Aeronautics Board is expected this year on MoPac's application for authorization to act as an air freight forwarder. The air freight operation would be performed by Missouri Pacific Airfreight, Inc., a truck lines subsidiary. The two railroads who filed for similar

authority before MoPac recently received air freight authorization. The addition of air forwarder service to MoPac's current array of 16 transportation and distribution services would greatly enhance the Company's ability to serve shippers in its 12-state area, especially in smaller communities.

Moves inside and out produce revenue

An aggressive, well-timed sales-promotion campaign and a number of undramatic but significant internal changes helped MoPac gain in a year of railroad decline. Coal and industrial development activities promise to produce substantial future traffic.

'Hauls All' sells total distribution

In October, while the GM strike was cutting into traffic revenues, MoPac launched an intensive sales and promotion campaign dubbed "MoPac Hauls All." The message was simple: MoPac can haul virtually anything the shipper can offer with a combination of 16 transportation/distribution services. Regional sales meetings were held at eight cities around the nation to thoroughly acquaint the sales force with all 16 services.

A broad advertising program utilizing magazines, newspapers and radio in key on-line cities helped tell the story to the shipping public. MoPac salesmen also staged an intensive campaign to acquaint every potential shipper with the Company's unique distribution capabilities. The result was increased revenue, greater public awareness of MoPac and improved morale among all MoPac employees.

Sales staff reorganized and formal training set up

In the interest of improved intra-departmental communications and smoother direction, the railroad's sales arm was reorganized. Four major territorial districts were outlined, with each of the four districts being sub-divided into regional districts as required. Also established was a new post, Manager-Government Traffic, which will enable MoPac to improve its sales effort in this big traffic market by providing a focal point for all government traffic matters.

Another new position, Director-Sales Training, was created. This new department within Traffic is establishing a formal sales training program, utilizing modern instruction tools, designed to help our representatives improve their sales techniques and their ability to work with the shipper on his particular transportation and distribution problems. Formal sales seminars will begin in 1971 and eventually will involve every MoPac salesman.

Realigned traffic research staff begins profit study

MoPac's Traffic Research Department was reorganized during 1970 and is working in cooperation with another new department, Profit Planning, in the development of a highly sophisticated cost-profit analysis program. Utilizing MoPac's improved computer capabilities,

these departments are studying each shipment handled in order to determine actual profit margins. The long-term study will pinpoint the high and low profit potential of each type of traffic over the MoPac System. Rather than evaluating traffic on the basis of gross revenues, evaluation

will be on the basis of actual profitability.

Meanwhile, MoPac's marketing experts continue to expand and refine the various volume and incentive rate plans on specific commodities which have proven so successful in holding and developing traffic.

National energy needs stimulate coal traffic

Rapid expansion by electric power generating plants continues to produce gains in coal traffic. Union Electric Company's huge power generation complex at Labadie, Mo., will increase its coal needs to 10,000 tons daily in 1971,

compared to 7,000 tons daily in 1970. By 1973, when the entire plant is in operation, MoPac will be using unit trains to deliver 6,000,000 tons of coal annually to Labadie.

Plans also have been com-

pleted for the opening of four new mines, two in Arkansas and two in Missouri, which will increase MoPac coal traffic substantially.

Industrial development sets \$\$ record

The 12-state region served by MoPac continues to attract new industrial development on an accelerated scale even though other areas reported declines in 1970. For the year, 123 new

plants and 75 expanded facilities accounted for a record investment of \$692-million in industrial development. Heavy industry, chemical and food plants predominated the list. Since 1965,

shippers have invested \$2.57 billion for 1,483 new or expanded plants along Missouri Pacific lines, thus insuring substantial sources of new traffic and future MoPac growth.

Mobile service extended; schedules upgraded

Eleven additional mobile agency routes were approved by the Missouri Public Service Commission in September, following public hearings at which a num-

ber of shippers already served by mobile agents testified in behalf of MoPac. The mobile agent, who goes to the shipper's door in an especially-equipped office

highway van, has proven highly effective in serving shippers in rural areas. MoPac now has 46 routes serving several hundred small communities in seven states. MoPac pioneered the mobile agency concept which is now being followed by other railroads.

Railpax being studied

RAILPAX, a quasi-public corporation designed to relieve participating railroads of their passenger deficit while maintaining a basic passenger network, was created by Congress in 1970. At this time, MoPac awaits more information and details before determining its role in RAILPAX.

Meanwhile, MoPac moved during 1970 to further reduce its own passenger service deficit by

receiving approval to discontinue the operations of Trains 1 and 2 south of Texarkana. They continue to operate between St. Louis and Texarkana. The discontinued portion of the run of Trains 1 and 2 accounted for an out-of-pocket loss of \$565,000 in 1969. MoPac also currently operates two sets of trains daily between Kansas City and St. Louis.

A number of service improvements were made in freight schedules. One found MoPac joining with southern and western railroads in new coast-to-coast run-through routes. In addition, several key freight trains were rescheduled in order to cut either over-the-road running time or to reduce time in terminals.

Modernization insures the future

No railroad, no matter how aggressive its salesmen are or how sophisticated its marketing science and computer services might be, can continue as an efficient traffic medium without a sound physical plant. MoPac embarked in 1961 on a modernization program designed not only to meet today's needs but those of tomorrow. This program continued during 1970.

Foremost on the 1970 program was further modernization of the freight fleet through the purchase of 1,200 new freight cars and the acquisition of 20 new diesel locomotives. In addition, the Company's shops performed maintenance and renovation work which permitted MoPac to have, on the average 96 per cent of its total car fleet in top operating condition throughout the year. The average age of our freight car fleet is now 14 years, with nearly 20 per cent of the cars purchased within the past five years.

Improvement of the track structure included installation of 1,286,000 ties, the laying of 282 miles of rail — nearly all of it continuous welded rail — application of one-million cubic yards of ballast and the resurfacing of 5,470 miles of track, the equivalent of about 46 per cent of the Company's main lines. In addition, 41 bridge and trestle projects totaling 8,117 lineal feet were

completed. Several track relocation projects were undertaken, most of them necessitated by new federal waterways projects.

In September, MoPac installed a new voice and data communications network which already has produced substantial technical improvements as well as the savings of thousands of hours in employee time. Centralized Traffic Control was extended to an additional 102 miles of railroad.

Phase II of a three-phase project to expand and modernize the freight classification yard at Fort Worth, Texas, was completed during the year. The entire project is expected to be finished late in 1971. The result will be MoPac's third automated, electronic freight classification facility.

A new diesel repair shop, delayed by contract labor difficulties, was virtually completed at North Little Rock.

In addition to the merchandise freight terminal and piggy-back facility improvements reported under intermodal services, MoPac expanded its auto handling installation at Arlington, Texas, and completed a new truck and mail handling installation at Fort Worth as well as numerous smaller improvement projects.

TCS remains on target

MoPac's Transportation Control System (TCS) reached a major milestone Nov. 16 when Neff Yard at Kansas City began using the TCS Car Movement Information Network. The computer-fed information system provides transportation officers in advance all the current information they require to schedule a car through the terminal and over the railroad. By mid-1971, all yards and Customer Service Centers will be tied into the information network.

The information network marks completion of the first phase in bringing TCS from dream into reality. TCS, the most advanced and complex management information system to

be undertaken by private business, is designed to provide tight control over MoPac's transportation operations, to utilize the freight car fleet more efficiently and to improve service to the shipper. The key ingredients of TCS are scheduling of individual cars by computer from the time they arrive on our lines until the time they leave our lines or are delivered on line, and a constant monitor on each car as it follows its established schedule. Simple to describe in broad terms, TCS demands incredibly complex planning and programming, as well as a large pool of specialists for development and implementation.

Implementation of TCS is proceeding segment by segment, area by area and is not expected to be completed until the mid-'70s. However, installation has been planned in such a manner that immediate benefits accrue both to the railroad and the shipper as each segment becomes operational. An example is the Customer Service Center, a central office which can handle almost all routine service requests from the shipper by telephone. Such centers now are located at six cities and four more are being installed, with about 45 centers planned. Reaction from both employees and customers has been highly favorable.

Simulation permits experimentation

In the past, new ideas for improving an operation had to be tried under fire in the field. If they did not work, time was wasted and operations often were hampered. Now it is possible to

simulate an operation on a computer and eliminate error or test variations without leaving the computer room. Two projects such as this were underway in 1970. One allows simulation

of an actual yard operation with the man behind the control board using various assumed combinations of power and crews to handle various operating problems often found on the job. Besides finding better solutions to old problems, such a project would also enable MoPac to accelerate the training of its yardmasters. A second project uses simulation to establish, analyze and compare various scheduling alternatives for cars moving on the Missouri Pacific System. Car scheduling, as mentioned previously, is a primary object of the Transportation Control System.

Computers enter the fourth generation

Because of the demands of TCS and other computer-oriented functions, MoPac finds it necessary to expand and improve its computer facilities regularly. An additional IBM 360/50 model computer has been installed in

1971. In 1972, MoPac will enter the fourth generation in computer technology with plans for the installation of two IBM 370/155 systems which are among the largest available for the use of private business.

Today's new faces, tomorrow's managers

MoPac's future success cannot be insured unless there is available a continuing supply of managers and highly-trained technicians,

as well as rank and file employees striving for promotion to the managerial ranks. As a result, MoPac places more emphasis

than perhaps any other railroad on the recruiting of bright new men and the upgrading of its existing employees.

College recruiting sets record

MoPac personnel officers interviewed 1,085 college undergraduates during 1970. With the job market for college graduates tighter than at any time in recent history, MoPac was able to be highly selective, finally hiring 39 graduates for assignment to the management training program or

directly to technical positions. Nearly 250 interviews were conducted to select 63 data processing professionals for the Transportation Control System program. Seven students were selected for the cooperative engineering program, a combined work-study arrangement which

permits the student to alternate between on-the-job training by MoPac and formal college study.

Present employees also were encouraged to upgrade their skills and 242 elected to do so by using the Company's tuition aid program to enroll in a wide variety of work-oriented courses. Others participated in seminars and short courses. MoPac also set up a new college fellowship program which will enable a restricted number of employees to attend college full-time in order to complete an undergraduate degree or finish an advanced degree. The fellowship program is intended to help the Company fill some of its more critical positions with men having a solid railroad background while providing employees an opportunity to advance their railroad careers.

Key promotions and changes

In January, 1970, Downing B. Jenks, president of the Missouri Pacific Railroad, assumed the additional position of chairman of the board of The Texas and Pacific Railway. John H. Lloyd, executive vice president of the Missouri Pacific Railroad, was elected president of the Texas & Pacific Railway. Donald L. Manion, assistant vice president-operation, became vice president-operation, Missouri Pacific

Railroad.

Two new departments were established during the year. All computer and data processing functions, as well as development of the Transportation Control System, are under the Information & Control Systems Department, directed by G. S. Sines. The Profit Planning Department, directed by J. R. Osman, embraces economic research and industrial engineering.

Merger fight continues

During 1970 MoPac continued to oppose the efforts of various Western Railroads to dismember the Rock Island Railroad. Although the Examiner had indicated a decision favorable to the Union Pacific position, no official Examiner's report has been issued and the case has now been assigned to a division of the Interstate Commerce Commission for initial decision.

In the proposed merger of the Illinois Central and the Gulf, Mobile and Ohio Railroad, a favorable Examiner's report has been issued and the matter is now pending before the Commission on exceptions thereto of MoPac and others.

It is MoPac's intention to continue its strenuous opposition to both of these merger situations in the belief that they represent dangerous threats to the Company, particularly in view of the alleged control by Union Pacific of the Illinois Central Railroad.

The suit against the Company and certain of its directors in the Federal Court in New York City, brought by MoPac's Class B stockholders seeking higher dividends on that stock, is still pending and discovery proceedings have been followed throughout the year. No setting of the case for trial has been made.

Missouri Pacific System

Consolidated Source And Use Of Funds

(In Thousands of Dollars)

Source of Funds:

Operations —

	1970	1969
Net income (before minority interests)	\$22,582	\$ 21,291
Depreciation and retirements (charges against income not requiring use of funds)	37,958	36,349
	<u>60,540</u>	<u>57,640</u>
Salvage from property sold or retired	7,393	8,466
Proceeds from equipment obligations issued	17,429	21,675
Chicago & Eastern Illinois System working capital at acquisition		8,079
Capital fund deposits (for equipment acquisitions)	3,162	3,288
Proceeds from sale of Chicago & Eastern Illinois common stock	1,569	
	<u>90,093</u>	<u>99,148</u>

Use of Funds:

Property additions	55,740	60,974
Repayments of equipment obligations	24,996	24,660
Reduction of long term debt	2,291	2,401
Dividends (including amounts paid minority interests)	10,257	10,490
Purchase of securities	96	475
Other—Net	795	1,668
	<u>94,175</u>	<u>100,668</u>
Decrease in Working Capital (exclusive of long term debt due within one year)	\$ 4,082	\$ 1,520

See Notes to Consolidated Financial Statements, Pages 16 and 17.

Independent Accountant's Opinion

PRICE WATERHOUSE & CO.

ONE MEMORIAL DRIVE
ST. LOUIS 63102

February 26, 1971

To the Stockholders and Board of Directors of
MISSOURI PACIFIC RAILROAD COMPANY

We have examined the consolidated balance sheet of the Missouri Pacific Railroad Company and its subsidiaries as of December 31, 1970 and the related statements of consolidated income, retained income, and source and use of funds for the year. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of the characteristics of the company's two classes of stock, earnings per share data have been omitted from the accompanying consolidated financial statements (see Notes 5 and 8 to the consolidated financial statements).

In our opinion, except that provision has not been made for deferred federal income taxes as set forth in the supplementary income information and earnings per share data have been omitted, the accompanying consolidated financial statements examined by us present fairly the financial position of the Missouri Pacific Railroad Company and its subsidiaries at December 31, 1970, the results of their operations and the source and use of funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Consolidated Balance

Assets

Current Assets :

	Dec. 31, 1970	Dec. 31, 1969
Cash.....	\$ 19,849	\$ 25,410
Temporary Cash Investments, at cost (approximates market).....	32,925	15,641
Deposits for Interest and Dividends.....	9,063	9,831
Accounts Receivable.....	51,959	57,760
Material and Supplies.....	13,707	14,669
Other Current Assets.....	1,437	3,540
	<u>128,940</u>	<u>126,851</u>

Properties: (Note 4)

Road.....	864,653	856,483
Equipment.....	800,694	791,120
Miscellaneous.....	37,341	34,743
	<u>1,702,688</u>	<u>1,682,346</u>

Accumulated Depreciation

Road.....	Cr 114,701	Cr 113,762
Equipment.....	Cr 316,439	Cr 305,448
Miscellaneous.....	Cr 12,810	Cr 10,526
Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments.....	Cr 55,382	Cr 58,022
	<u>1,203,356</u>	<u>1,194,588</u>

Other Assets and Deferred Charges :

Investment in Santa Fe Industries, Inc. 6¼% Convertible Subordinated Debentures (Approximate Market Value \$19,500,000).....	24,813	24,813
Investment in Terminal and Other Companies.....	32,769	32,048
Capital, Insurance and Other Funds.....	1,678	4,651
Other.....	6,471	6,896
	<u>65,731</u>	<u>68,408</u>
	<u>\$1,398,027</u>	<u>\$1,389,847</u>

Sheet *(In Thousands of Dollars)*

Liabilities

Current Liabilities: (Exclusive of Long Term Debt Due Within One Year)

	Dec. 31, 1970	Dec. 31, 1969
Accounts and Wages Payable.....	\$ 65,773	\$ 57,124
Interest and Dividends Payable.....	7,417	7,674
Unmatured Interest Accrued.....	13,222	13,224
Federal Income Taxes Accrued (Note 2).....	5,603	5,902
Other Taxes Accrued.....	9,727	9,587
Other Current Liabilities.....	6,111	8,171
	<u>107,853</u>	<u>101,682</u>

Long Term Debt — Due Within One Year

(Equipment Obligations).....	<u>24,572</u>	<u>24,332</u>
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Long Term Debt (Page 15).....	<u>694,620</u>	<u>704,718</u>
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Other Liabilities and Deferred Credits.....	<u>17,351</u>	<u>17,232</u>
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Equity of Minority Stockholders in

Consolidated Subsidiaries (Note 1).....	<u>43,621</u>	<u>43,946</u>
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Stockholders' Equity: (Notes 5, 6 and 8)

Capital Stock — No Par Value

Class A — Authorized 3,000,000 shares; outstanding 1,863,552 and 1,863,352 shares, respectively (excluding 17,600 shares held by Company).....	186,355	186,335
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Class B — Authorized 1,000,000 shares; outstanding 39,731 shares.....	3,973	3,973
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Capital Surplus.....	1,537	1,548
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Retained Income (Page 15).....	318,145	306,081
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<u>510,010</u>	<u>497,937</u>
<u>\$1,398,027</u>	<u>\$1,389,847</u>

Commitments and Contingent Liabilities (Note 7)

See Notes to Consolidated Financial Statements, Pages 16 and 17.

Missouri Pacific System

Statement of Consolidated Income

(In Thousands of Dollars)

	1970	1969
Operating Revenues:		
Freight.....	\$504,506	\$465,931
Passenger, Mail and Express.....	9,054	10,553
Switching and Other.....	20,568	18,774
Total Operating Revenues.....	<u>534,128</u>	<u>495,258</u>
Operating Expenses: (Note 3)		
Maintenance of Way and Structures (Note 4).....	76,177	72,717
Maintenance of Equipment.....	97,745	92,721
Traffic.....	14,350	13,256
Transportation.....	203,992	185,363
General and Miscellaneous.....	24,542	23,044
Total Operating Expenses.....	<u>416,806</u>	<u>387,101</u>
Net Revenue from Operations.....	<u>117,322</u>	<u>108,157</u>
Other Operating Charges:		
Taxes (Except Federal Income Taxes).....	38,108	35,455
Equipment and Joint Facility Rents.....	29,309	23,731
Total Other Operating Charges.....	<u>67,417</u>	<u>59,186</u>
Net Operating Income (Before Federal Income Taxes).....	49,905	48,971
Other Income (Net)	8,765	9,577
Income Available For Fixed Charges (Before Federal Income Taxes).....	<u>58,670</u>	<u>58,548</u>
Interest:		
Fixed.....	25,009	24,089
Contingent.....	10,526	10,482
Total Interest.....	<u>35,535</u>	<u>34,571</u>
	<u>23,135</u>	<u>23,977</u>
Federal Income Taxes (Note 2)	553	2,686
	<u>22,582</u>	<u>21,291</u>
Less — Income Applicable to Minority Interests.....	<u>1,002</u>	<u>4</u>
Net Income (In Conformity with I.C.C. Accounting Principles — Notes 1 and 2).....	<u>\$ 21,580</u>	<u>\$ 21,287</u>

Supplementary Income Information

Net Income as above (In Conformity with I.C.C. Accounting Principles).....	\$ 21,580	\$ 21,287
Adjustments to Generally Accepted Accounting Principles (Note 2):		
Add or (Deduct) —		
Deferred Federal Income Taxes.....	(10,525)	(7,086)
Portion of Deferred Federal Income Taxes Applicable to Minority Interests.....	456	(61)
Net Income (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles).....	<u>\$ 11,511</u>	<u>\$ 14,140</u>
Depreciation and Retirement Charges Included Above (Note 4).....	\$ 37,958	\$ 36,349

See Notes to Consolidated Financial Statements, Pages 16 and 17.

Missouri Pacific System

Consolidated Retained Income

(In Thousands of Dollars)

	1970	1969
Balance at beginning of year.....	\$306,081	\$294,307
Add — Net Income (In Conformity with I.C.C. Accounting Principles) ..	21,580	21,287
	<u>327,661</u>	<u>315,594</u>
Deduct — Cash Dividends —		
Class A Stock — \$5.00 per share	9,317	9,314
Class B Stock — \$5.00 per share	199	199
Balance at end of year (Including \$78,731 and \$74,214 respectively, appropriated by the Board of Directors) (Notes 5 and 8).....	<u>\$318,145</u>	<u>\$306,081</u>

See Notes to Consolidated Financial Statements, Pages 16 and 17.

Long Term Debt

(Including Maturities in 1971)

(In Thousands of Dollars)

	Interest Rate	Date of Maturity	Changes 1970		Outstanding December 31, 1970 (excluding amounts held by Company)
			Issued	Reacquired	
Missouri Pacific Railroad Company					
First Mortgage Bonds (1) . . .	4¼%	1990 & 2005			\$251,516
General Mortgage Bonds (1) .	4¾% (2)	2020 & 2030		\$ 897	114,503
Income Debentures.....	5% (2)	2045			100,016
Equipment Obligations.....	3¾% to 9%	1971 to 1985	\$13,529	12,057	95,244
Texas and Pacific Railway Company					
First Mortgage Bonds.....	5%	2000			18,961
Second Mortgage Bonds....	5%	2000			73
General & Refunding Mortgage Bonds (1)	3¾%	1985		1,198	18,779
First Mortgage Bonds (KO&G) (1).....	3¾%	1980		8	2,464
Equipment Obligations.....	4½% to 6¾%	1971 to 1985	2,640	5,753	60,694
Chicago & Eastern Illinois Railroad Company					
Income Debentures (1).....	5% (2)	2054			1,721
Equipment Obligations.....	5% to 6¾%	1971 to 1982		1,585	11,709
Other Majority Owned Subsidiaries					
.....	4½% to 6¾%	1971 to 1985	1,260	5,789	43,512
Grand Total.....			<u>\$17,429</u>	<u>\$27,287</u>	<u>\$719,192</u>
Equipment Obligations maturing during each of the next five years.....					
	1971	1972	1973	1974	1975
	\$24,572	\$23,565	\$21,987	\$21,116	\$20,150

(1) Have annual sinking fund requirements.

(2) Contingent interest.

Missouri Pacific System

Notes to Consolidated Financial Statements

NOTE 1 — PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statements of the Missouri Pacific System include the accounts of the Missouri Pacific Railroad Company and its majority-owned subsidiaries, principally the Texas and Pacific System (96.0% owned) and the Chicago & Eastern Illinois System (56.8% owned). The 1969 statement of consolidated income includes the revenues and expenses of the Chicago & Eastern Illinois System since June 5, 1969, the date on which ownership by the Missouri Pacific Railroad Company increased to more than 50 per cent, and includes net income prior to that date on the equity method of accounting.

NOTE 2 — FEDERAL INCOME TAXES:

The Company and its railroad subsidiaries maintain their books of account, and the accompanying statements have been prepared, in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission. These principles and methods do not require provision for deferred federal income taxes as is required under generally accepted accounting principles.

The supplementary income information shown below the statement of consolidated income reflects the adjustments necessary to present income in conformity with generally accepted accounting principles. The adjustments for deferred federal income taxes provide for the tax effects of all material transactions which enter into the determination of pretax accounting income in one year and of taxable income in a different year. The adjustments necessary to reflect the cumulative tax effects of these transactions and present the accompanying consolidated balance sheet in conformity with generally accepted accounting principles at December 31, 1970 would increase current assets, net properties and deferred credits by \$7,100,000, \$9,400,000 and \$143,700,000, respectively, and decrease current liabilities, equity of minority stockholders and retained income by \$4,900,000, \$8,100,000 and \$114,200,000, respectively.

In 1969, the provision for current federal income taxes was reduced by \$1,780,000, representing the estimated amount of investment tax credit currently realizable; however, in 1970 no investment tax credit was currently realizable. At December 31, 1970, investment tax credit carryovers of approximately \$26,200,000 are available to offset future years' federal income taxes. Of the \$26,200,000 carryover, \$3,300,000 will expire in 1971, \$6,100,000 in 1972, \$4,500,000 in 1973, \$2,000,000 in 1974, \$4,400,000 in 1975, \$3,400,000 in 1976 and \$2,500,000 in 1977, if not used.

NOTE 3 — RETIREMENT PLAN:

The companies have an unfunded, noncontributory pension plan for executives, officials and certain key employees. Related charges to operating expense in 1970 and 1969 were approximately \$2,936,000 and \$2,539,000, respectively, representing accruals which include normal cost and amortization of prior service cost over a period of 35 years, plus interest on the recorded unfunded pension liability.

The actuarially computed value of benefits pertaining to retired employees exceeds the recorded pension plan liability by approximately \$18,250,000 at December 31, 1970.

NOTE 4 — PROPERTIES:

Properties are stated at estimated original cost as determined by Interstate Commerce Commission valuations (as of January 1, 1955, date of reorganization, as to the parent company) plus additions and betterments at cost and less retirements since the dates of valuations.

The companies follow the straight-line method of depreciation, using various group rates prescribed by the Interstate Commerce Commission, with respect to equipment and depreciable road properties. However, for rails, ties and other track materials, instead of depreciation accounting, they follow an acceptable alternate practice of "replacement" accounting. Under this meth-

od, replacements in kind are charged to expense while additions and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are retired.

At December 31, 1970 consolidated nondepreciable properties, including land and land rights, were approximately \$539,000,000.

NOTE 5 — CAPITAL STOCK AND RETAINED INCOME:

As of December 31, 1970, the Company had outstanding 1,903,283 shares of Capital Stock divided into two classes. Of this total 97.9% or 1,863,552 shares were Class A Stock and 2.1% or 39,731 shares were Class B Stock. These shares are without par value, but each has a stated value of \$100 per share. Holders of Class A and Class B Stock have full voting rights equal to one vote for each share held, but the Class A and Class B shares are entitled to vote separately as a class upon certain matters, including the issuance of additional shares and modifications of present shares.

Dividends on the Class A Stock are non-cumulative and may not exceed \$5 per share in any given calendar year. After dividends of \$5 per share have been paid on the Class A Stock in any year, dividends may be paid on the Class B Stock in such amount as the Board of Directors may declare. Dividends on both classes of stock are subject to the setting aside of such reserves and making such other provisions as the Board may deem necessary or advisable for working capital or expansion of the business of the Company, including the acquisition of property, or for other corporate purposes. Undistributed earnings of prior years may be used to pay cash dividends in succeeding years on either class of stock.

In the event of liquidation of the Company the holders of Class A Stock shall be entitled to receive, out of the assets, the maximum of \$100 per share before any distribution is made to the holders of the Class B Stock. Thereafter, the holders of the Class B Stock shall be entitled to receive any further distributions out of the assets of the Company without participation by the Class A holders. Neither the Class A nor Class B Stock is convertible into the other class and neither is subject to redemption.

The provisions of the mortgages and indenture relative to priority of call in each year upon "Available Net Income" (as defined therein) have been satisfied and no restriction on the parent company's retained income at December 31, 1970 exists.

NOTE 6 — STOCK OPTION PLAN:

A Restricted Stock Option Plan reserving 100,000 shares of Class A Stock was approved by the stockholders on May 9, 1961. Under the plan, options granted prior to 1964 are cumulatively exercisable to the extent of 25% in each of the third through sixth years and expire ten years after the date of grant. Options granted in 1964 and subsequent are cumulatively exercisable to the extent of 35% in each of the third and fourth years and 30% in the fifth year and expire five years after the date of grant. No additional options can be granted under the plan. A summary of changes in stock options for the year follows:

	Under Option		Exercisable	
	Shares	Price Range	Shares	Price Range
Balance, Jan. 1, 1970	12,850	\$44.87-92.50	9,850	\$44.87-92.50
Options —				
Became Exercisable			3,000	92.50
Exercised	(200)	44.87	(200)	44.87
Expired	(500)	59.87-60.37	(500)	59.87-60.37
Balance, Dec. 31, 1970	12,150	59.87-92.50	12,150	59.87-92.50

The aggregate option price of shares under option and exercisable at December 31, 1970 was \$1,054,000. Of this amount, shares with an aggregate option price of \$925,000 expired on February 23, 1971.

For the options exercised in 1970, Class A Stock was credited at \$100 per share, an aggregate of \$20,000 and the difference between the \$100 and the option price was charged to capital surplus, an aggregate of \$11,000.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Company and its railroad subsidiaries lease a general office building and certain transportation equipment under long term lease agreements with total rental obligations of approximately \$36,600,000 as of December 31, 1970. In 1971 \$3,500,000 of such obligations will be paid.

The Company and its railroad subsidiaries are contingently liable as guarantors, together with other owner railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately \$130,500,000 at December 31, 1970. Under terms of a service interruption policy, the Company and its railroad subsidiaries may be contingently liable for additional premiums up to a maximum of \$10,840,000 in the event of work

stoppages on other participating roads.

In the opinion of management, the above commitments and contingencies are normal operating arrangements.

NOTE 8 — LEGAL PROCEEDING:

The lawsuit in the New York City Federal Court, brought by the Company's Class B stockholders against the Company and its directors and Mississippi River Corporation, is still pending and it is anticipated that it will be some time before it can be reached for trial. These stockholders, who sue on behalf of all the Class, assert that the dividends paid on the Class B Stock are inadequate and that Mississippi River Corporation is seeking to enrich itself by depriving those stockholders of their share of the Company's earnings. The Courts are asked to order Missouri Pacific and its directors to declare dividends on the Class B Stock in such amounts as the Court shall determine to be just and reasonable out of retained income for the years 1955 through 1967, plus interest thereon, and that defendants be required to pay adequate dividends in the future. It is the position of the Company that the suit is without foundation and it is vigorously defending the same.

Computation And Application Of Available Net Income

*Income of Missouri Pacific Railroad Company and its Wholly-Owned Railway Companies
(as required by the Company's Mortgages and Indenture)
(In Thousands of Dollars)*

	1970	1969
Income before Fixed Charges and after Federal Income Taxes.....	\$45,217	\$41,429
Income of Wholly-Owned Railway Companies.....	115	58
Road Property Retired and Charged to Operating Expenses.....	1,306	1,519
	<u>46,638</u>	<u>43,006</u>
Less — Dividends of 100% Railway Companies included in Missouri Pacific Income . . .	200	250
Total Income Available for Fixed Charges.....	<u>46,438</u>	<u>42,756</u>
Fixed Charges.....	16,588	15,446
Available Income.....	<u>29,850</u>	<u>27,310</u>
Capital Expenditures Fund.....	4,548	4,477
Remaining Available Income.....	<u>25,302</u>	<u>22,833</u>
First Mortgage Sinking Fund.....	771	771
Remaining Income.....	<u>24,531</u>	<u>22,062</u>
Interest on General Mortgage Bonds, Series A.....	2,794	2,807
Remaining Income.....	<u>21,737</u>	<u>19,255</u>
Sinking Fund on General Mortgage Bonds, Series A.....	350	350
Remaining Income.....	<u>21,387</u>	<u>18,905</u>
Interest on General Mortgage Bonds, Series B.....	2,645	2,674
Remaining Income.....	<u>18,742</u>	<u>16,231</u>
Sinking Fund on General Mortgage Bonds, Series B.....	338	338
Remaining Income.....	<u>18,404</u>	<u>15,893</u>
Interest on Income Debentures.....	5,001	5,001
Balance.....	<u>\$13,403</u>	<u>\$10,892</u>

Missouri Pacific Railroad Company

Statement of Income (Corporate)

(In Thousands of Dollars)

	1970	1969
Operating Revenues:		
Freight	\$350,207	\$331,172
Passenger, Mail and Express	5,502	6,845
Switching and Other	13,719	13,615
Total Operating Revenues	<u>369,428</u>	<u>351,632</u>
Operating Expenses:		
Maintenance of Way and Structures	53,805	55,145
Maintenance of Equipment	60,153	58,218
Traffic	8,806	8,447
Transportation	133,165	123,614
General and Miscellaneous	17,428	16,462
Total Operating Expenses	<u>273,357</u>	<u>261,886</u>
Net Revenue from Operations	<u>96,071</u>	<u>89,746</u>
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	26,171	24,922
Equipment and Joint Facility Rents	39,333	34,734
Total Other Operating Charges	<u>65,504</u>	<u>59,656</u>
Net Operating Income (Before Federal Income Taxes)	<u>30,567</u>	<u>30,090</u>
Other Income (Net):		
Intercompany Dividends (Eliminated in Consolidation)	8,673	6,719
Other, Net	5,162	5,761
Total Other Income	<u>13,835</u>	<u>12,480</u>
Income Available For Fixed Charges (Before Federal Income Taxes)	<u>44,402</u>	<u>42,570</u>
Interest:		
Fixed	16,588	15,446
Contingent	10,440	10,482
Total Interest	<u>27,028</u>	<u>25,928</u>
	<u>17,374</u>	<u>16,642</u>
Federal Income Taxes	Cr 815	1,141
Net Income (In Conformity with I.C.C. Accounting Principles)	<u>\$ 18,189</u>	<u>\$ 15,501</u>

Supplementary Income Information

Net Income as above (In Conformity with I.C.C. Accounting Principles)	\$ 18,189	\$ 15,501
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(5,812)	(2,540)
Net Income (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	<u>\$ 12,377</u>	<u>\$ 12,961</u>
Depreciation and Retirement Charges Included Above	\$ 21,856	\$ 21,226

Texas and Pacific System

(Owned 96.0% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	1970	1969
Operating Revenues:		
Freight	\$ 98,758	\$ 95,404
Passenger, Mail and Express	3,392	3,606
Switching and Other	2,980	2,578
Total Operating Revenues	<u>105,130</u>	<u>101,588</u>
Operating Expenses:		
Maintenance of Way and Structures	13,416	12,015
Maintenance of Equipment	18,918	18,623
Traffic	3,755	3,486
Transportation	44,204	41,043
General and Miscellaneous	4,346	4,372
Total Operating Expenses	<u>84,639</u>	<u>79,539</u>
Net Revenue from Operations	<u>20,491</u>	<u>22,049</u>
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	6,705	6,395
Equipment and Joint Facility Rents	2,818	3,642
Total Other Operating Charges	<u>9,523</u>	<u>10,037</u>
Net Operating Income (Before Federal Income Taxes)	10,968	12,012
Other Income (Net)	<u>2,186</u>	<u>2,503</u>
Income Available For Fixed Charges (Before Federal Income Taxes)	13,154	14,515
Fixed Interest	<u>5,389</u>	<u>5,618</u>
	7,765	8,897
Federal Income Taxes	<u>283</u>	<u>578</u>
	7,482	8,319
Add-Loss Applicable to Minority Interests	<u>10</u>	<u>38</u>
Net Income (In Conformity with I.C.C. Accounting Principles)	<u>\$ 7,492</u>	<u>\$ 8,357</u>

Supplementary Income Information

Net Income as above (In Conformity with I.C.C. Accounting Principles)	\$ 7,492	\$ 8,357
Adjustments to Generally Accepted Accounting Principles —		
Deferred Federal Income Taxes	(2,989)	(3,503)
Net Income (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	<u>\$ 4,503</u>	<u>\$ 4,854</u>
Depreciation and Retirement Charges Included Above	\$ 7,453	\$ 7,529

Chicago & Eastern Illinois System

(Owned 56.8% By Missouri Pacific Railroad Company)

Statement of Consolidated Income (In Thousands of Dollars)

	1970	1969
Operating Revenues:		
Freight	\$ 29,817	\$ 35,887
Passenger, Mail and Express	159	631
Switching and Other	2,832	3,335
Total Operating Revenues	<u>32,808</u>	<u>39,853</u>
Operating Expenses:		
Maintenance of Way and Structures	6,535	7,981
Maintenance of Equipment	5,776	7,429
Traffic	1,224	1,487
Transportation	11,020	14,165
General and Miscellaneous	1,568	2,067
Total Operating Expenses	<u>26,123</u>	<u>33,129</u>
Net Revenue from Operations	<u>6,685</u>	<u>6,724</u>
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	2,359	2,813
Equipment and Joint Facility Rents	2,690	4,021
Total Other Operating Charges	<u>5,049</u>	<u>6,834</u>
Net Operating Income (Loss)	1,636	(110)
Other Income (Net)	7	525
Income Available for Fixed Charges	<u>1,643</u>	<u>415</u>
Interest:		
Fixed	776	1,505
Contingent	86	
Total Interest	<u>862</u>	<u>1,505</u>
Net Income (Loss) Before Extraordinary Items	781	(1,090)
Extraordinary Items		(4,358)
Net Income (Loss) (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	<u>\$ 781</u>	<u>\$ (5,448)</u>

Supplementary Income Information

Net Income (Loss) Before Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	\$ 781	\$ (1,090)
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(383)	576
Net Income (Loss) Before Extraordinary Items	<u>398</u>	<u>(514)</u>
Extraordinary Items:		
Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)		(4,358)
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes		2,891
		<u>(1,467)</u>
Net Income (Loss) (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	<u>\$ 398</u>	<u>\$ (1,981)</u>
Depreciation and Retirement Charges Included Above	\$ 2,004	\$ 4,615

29,000 Miles of Rail/Truck Routes

The Missouri Pacific—Texas & Pacific System totals about 12,000 miles of railroad in an area extending from the Mississippi River on the east, to the Colorado Rockies, from Omaha and St. Louis on the north, to the Gulf of Mexico and the Rio Grande.

Its on-line territory, in which traffic originates and terminates, includes 12 states in the midwest, south and southwest. With gateways to and from the west at Pueblo and El Paso, and to the east at St. Louis, Memphis and New Orleans, the MP—T&P combination provides an exceptionally wide choice of routes for overhead east-west traffic. Handling substantial volumes of export-import traffic through 11 Gulf ports and through the

Brownsville, Laredo and El Paso gateways to Mexico, it is an important link in foreign commerce as well as one of the nation's major domestic carriers.

Supplementing the rail lines is a network of some 17,000 miles of truck routes operated by Missouri Pacific Truck Lines, Inc., and The Texas & Pacific Motor Transport Company. Much of the highway mileage parallels the rail lines but many routes provide scheduled freight service to places not reached by the railroads. The two highway subsidiaries also perform all the terminal and piggyback ramp loading and unloading for Missouri Pacific Railroad—Texas & Pacific Railway billed traffic and over-the-highway service for piggyback traffic.



Office of the Secretary

MISSOURI PACIFIC RAILROAD CO.

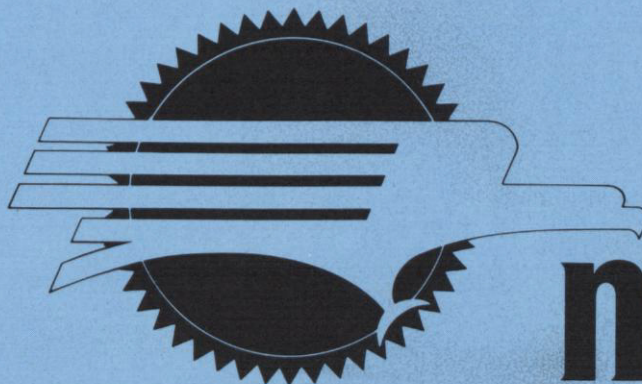
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